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SUBJECT: IRRITATED WITH PRESSURES, LULA PUTS OFF MOST OF HIS CABINET SHUFFLE

REF: BRASILIA 0767

**¶1.** (SBU) SUMMARY. Irritated by incessant clamoring from his allied parties as they jockeyed for cabinet posts, Brazilian President Lula da Silva dug in yesterday and put most of the cabinet shakeup on hold. The final straw for Lula was a challenge from the new Speaker of the Chamber, Severino Cavalcanti, who insisted that if his PP party did not get an important ministry, he would take the party into the opposition. Lula balked, and instead of announcing the broad shakeup that had been expected for months, he made only two small changes. The new cabinet ministers are Federal Deputy Paulo BERNARDO (PT-Parana) who will take over the Planning Ministry, and Senator Romero JUCA (PMDB-Roraima) who takes over at Social Security (bio info at paras 6-9). Lula's occasional fits of pique are well-known here, but this one ultimately could serve him well. By putting at least a temporary end to the unseemly bargaining for cabinet posts, Lula has stood up to rebellious parties and may have reinforced the coalition discipline that has slipped away in recent weeks. Given that dozens of names and as many as eight cabinet slots have been in play, Lula's abrupt decision leaves many winners and losers waiting to see if more changes are in the offing. END SUMMARY.

CABINET SHUFFLE - SLOW TRAIN COMIN'

**¶2.** (SBU) The cabinet shuffle began in November 2004, when Vice-President Alencar put on a second hat and took over the Defense Ministry while Planning Minister Guido Mantega was moved to the national development bank, BNDES. A few weeks later, two allied parties (PMDB and PPS) were riven by uncertainty over whether to remain in his coalition. This made obvious the need to change the cabinet both to swap out weak performers and to reward loyal allies with ministerial posts. Initially, Lula seemed determined not to drag out the process as he did in 2004. But it did drag out, excruciatingly. For the past four months, rumors have swirled with names of several ministries, ministers and parties in play, putting great pressure on the administration and slowing the work of ministers deemed lame ducks. Last month, Severino Cavalcanti of the coalition's PP party was elected Speaker of the Chamber in a surprise (reftel), forcing Lula to consider buying his loyalty by giving the PP the Ministry of Communications.

LULA GETS TICKED

**¶3.** (SBU) Lula has a stubborn streak and can be sensitive to outside pressure (witness his irritation with a critical NY Times article in May 2004, when he nearly expelled the journalist from Brazil). The final straw came on May 21 when Cavalcanti, whose childlike glee at becoming Speaker has led him to explore the outer limits of his authority, announced to the press that unless Lula gave an "important ministry" to the PP, he would carry the party into the opposition. Lula balked. For weeks now, it has been assumed that Lula would name Cavalcanti's PP crony, Federal Deputy Ciro Nogueira to be Minister of Communications. Had Cavalcanti only kept his mouth shut, the PP likely would have gotten its "important ministry". Instead, in a curt press release on May 22, Lula announced only two minor cabinet moves: PT Federal Deputy Paulo Bernardo will take over the Planning Ministry, and PMDB Senator Romero Juca will take over at Social Security. There was no announcement on when, or if, further changes will be made.

WINNERS AND LOSERS

**¶4.** (SBU) The biggest losers are the PP and Ciro Nogueira, who will remain in the Chamber waiting to see if Lula thaws. The PP holds 51 Chamber seats including the Speakership but has no cabinet post (though Ag Minister Rodrigues is associated with the party). This leaves the PP, which tends to be more conservative than Lula and the Workers' Party, reluctant to support the administration's agenda in Congress. Another loser is Federal Deputy Joao Paulo Cunha (PT), the former Chamber Speaker who was hoping to get a post in order to launch his bid for Sao Paulo's governorship next year. Similarly, Senator Roseana Sarney --who switched from the

opposition PFL to the PMDB when her father, Senator Jose Sarney, got her a promise of a cabinet slot-- will cool her heels in the Senate. Meanwhile, many of those predicted to be sacked will stay in place (at least until further changes are announced), including: Humberto Costa at Health, Aldo Rebelo as Lula's Political Coordinator, Olivio Dutra at Cities, and even Vice President Jose Alencar, who announced recently that he saw himself out of place as Defense Minister.

COMMENT - LULA GETS PRESIDENTIAL

15. (SBU) Lula faced a crossroads this week. He could have caved into his allies' incessant clamoring for perks and Cavalcanti's audacious challenge for an "important ministry", all in the name of consolidating the coalition. Or he could have done what he did: call Cavalcanti's bluff and reassert authority --both his as President and the PT's leadership of the coalition. After Lula's announcement, Cavalcanti immediately backed down and said the PP would remain in the coalition with or without a ministry. Lula scored a little victory this week, saving face and at least temporarily reasserting some discipline in the coalition, while putting an end to Cavalcanti's five-week joyride. This will not be the final word, and in short order the allied parties will likely begin complaining again. Coalition management is a journey in Brazil, not a destination. But for a few days at least, Lula is back in the driver's seat.

MINISTER OF PLANNING - PAULO BERNARDO

16. (SBU) The new Minister of Planning is Paulo Bernardo, a Federal Deputy from Lula's Workers' Party (PT). The Planning Ministry came open last November, when Lula asked respected Minister Guida Mantega to take over at the national development bank, BNDES. The PT will keep Planning because other parties shunned it, calling it a "technical" ministry, i.e., one that requires professional competence but does not bring a big discretionary budget.

17. (SBU) Bernardo, 53, is a Lula loyalist with a background in banking and public finance. He spent his early career with the Bank of Brazil before being elected to two terms in Congress (1991-1999) from the southern state of Parana. As chair of the Oversight Committee, he was one of the first to utilize new accounting software to closely monitor expenditures of the Cardoso administration. In 1999-2000, he served as state Finance Secretary of the neighboring state of Mato Grosso do Sul, in the administration of his PT friend, Governor Zeca. Returning to Parana, he was elected to his third congressional term in 2002. In 2004, he chaired the high-profile Joint Budget Committee, which brought him to the attention of Finance Minister Antonio Palocci who championed his name for the Planning Ministry.

MINISTER OF SOCIAL SECURITY - ROMERO JUCA

18. (SBU) The new Minister of Social Security is Romero Juca, a Senator from the coalition's PMDB party. He will be the third Social Security Minister under Lula. The first was PT stalwart Ricardo Berzoini, who was replaced by PMDB Senator Amir Lando in the January 2004 shakeup --one of two PMDB members given cabinet posts as that party was brought into the coalition. Lando's tenure has been uninspired, and the deficit in the public sector pension system has increased and could reach US\$14 billion this year. Thus Lando is being replaced by another PMDB member for performance and not political reasons. The second PMDB minister, Eunicio Oliveira at Communications, will keep his post.

19. (SBU) Romero Juca, 50, is from the state of Pernambuco and spent much of his life there, studying economics and working in a variety of management positions in state government. In 1985, he moved to Roraima in the Amazon region when then-President Sarney appointed him to head a development project called the "Rondon Foundation". Sarney later named him Director of the National Indian Foundation (FUNAI) and then appointed him the first civilian Governor of the then-territory (now state) of Roraima (1988-1991). (Juca has remained close to Sarney, who is now in the Senate and remains a skilled king-maker.) Juca, then with the PFL party, was elected to the Senate (1995-2003) from Roraima and served on the Social Affairs, Infrastructure, and Budget Committees. He later switched to the PMDB and was reelected to a second term (2003-2011). In 2004, while Deputy Paulo Bernardo (above) chaired the Joint Budget Committee, Juca drafted and sponsored the actual budget bill that went through the committee. He has been the subject of several corruption allegations over the years: that he allowed illegal logging on Indian lands while heading FUNAI, that he embezzled funds from a Roraima social assistance fund, and that he skimmed off government funds earmarked for civil construction projects in Roraima. All of the allegations were shelved. He is married to Tereza Juca, the Mayor of Roraima's capital, Boa Vista.

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